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DYNASTY
Since 1980

Dynasty Fine Wines Group Limited
王 朝 酒 業 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 828)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "**Board**") of directors (the "**Directors**") of Dynasty Fine Wines Group Limited (the "**Company**") would like to report the unaudited interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2017. The unaudited interim results for the first half year of 2017 have also been reviewed by the audit committee of the Company (the "**Audit Committee**"). All Audit Committee members, including the chairman of the Audit Committee are independent non-executive Directors.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2017	2016
	Note	***HK$'000***	*HK$'000*
Revenue	*5*	**235,740**	238,761
Cost of sales		**(154,414)**	(173,590)
Gross profit		**81,326**	65,171
Other income, gains and losses – net		**479**	727
Distribution costs		**(54,467)**	(92,975)
Administrative expenses		**(52,097)**	(44,927)
Operating loss	*6*	**(24,759)**	(72,004)
Finance income		**232**	1,942
Finance costs		**(2,938)**	(4,318)
Finance costs – net		**(2,706)**	(2,376)
Loss before income tax		**(27,465)**	(74,380)
Income tax (expense)/credit	*7*	**(26)**	329
Loss for the period		**(27,491)**	(74,051)
Attributable to:			
Owners of the Company		**(26,701)**	(73,917)
Non-controlling interests		**(790)**	(134)
		(27,491)	(74,051)
Loss per share attributable to owners of the Company for the period *(expressed in HK cents per share)*			
– Basic and diluted loss per share	*9*	**(2.1)**	(5.9)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Loss for the period	**(27,491)**	(74,051)
Other comprehensive income		
Currency translation differences	**15,325**	28,882
Total comprehensive loss for the period	**(12,166)**	(45,169)
Attributable to:		
Owners of the Company	**(11,921)**	(43,028)
Non-controlling interests	**(245)**	(2,141)
	(12,166)	(45,169)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2017 Unaudited *HK$'000*	31 December 2016 Audited *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**269,045**	272,170
Leasehold land and land use rights		**52,856**	52,095
Goodwill		**–**	–
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
		321,901	324,265
Current assets			
Trade and notes receivables	*10*	**86,933**	51,311
Other receivables, deposits and prepayments		**21,842**	39,138
Inventories		**437,471**	504,367
Restricted cash		**591**	733
Cash and cash equivalents		**74,443**	90,675
		621,280	686,224
Total assets		**943,181**	1,010,489
EQUITY			
Equity attributable to the owners of the Company:			
Share capital		**124,820**	124,820
Other reserves		**1,154,133**	1,139,353
Accumulated losses		**(945,211)**	(918,510)
		333,742	345,663
Non-controlling interests		**15,323**	15,568
Total equity		**349,065**	361,231
LIABILITIES			
Current liabilities			
Trade payables	*11*	**136,094**	210,424
Other payables and accruals		**324,093**	321,499
Borrowings		**133,929**	117,318
Current income tax liabilities		**–**	17
Total liabilities		**594,116**	649,258
Total equity and liabilities		**943,181**	1,010,489

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, whilst the principal office is Rooms E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The principal activities of the Company are investment holding and trading of wine products. The principal activities of the subsidiaries are manufacturing and sale of wine products and unprocessed wine.

The shares of the Company ("**Shares**") were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 26 January 2005. On 22 March 2013, trading of the Shares was suspended on the Stock Exchange.

The condensed consolidated financial information was approved for issue by the Board on 22 July 2019.

These condensed consolidated interim financial statements have not been audited.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with HKFRSs.

The accounting treatments, accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2016. The Company's auditor issued a qualified opinion on the annual financial statements for the year ended 31 December 2016 in its report dated 15 February 2018.

The preparation of these condensed consolidated interim financial information has also taken into account of all relevant information of the consolidated financial statements for the year ended 31 December 2017. The accounting treatments and methods of computation used in the preparation are consistent with those used in the annual financial statements for the year ended 31 December 2017.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to HKAS 12, and

- Disclosure initiative – Amendments to HKAS 7

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to HKAS 7 require disclose of changes in liabilities arising from financing activities.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these condensed consolidated interim financial statements.

None of these is expected to have a significant effect on the condensed consolidated interim financial statements of the Group, except the following having impact on financial statements set out below:

- HKFRS 9, 'Financial instruments'
- HKFRS 15, 'Revenue from contracts with customers'
- HKFRS 16, 'Leases'

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in any risk management policies.

3.2 Liquidity risk

Compared to the year ended 31 December 2016, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

3.3 Other risk factors and fair value estimation

All other aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2016.

4 ESTIMATES

The preparation of interim financial statements requires the management of the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management of the Company in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5 SEGMENT INFORMATION

In accordance with the Group's internal reporting, the chief operating decision-maker considers the business from product perspective and has determined the operating segments to be red wines, white wines and all other products primarily related to the sale of sparkling wines, brandy and icewine. The executive directors assesses the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

The key management team assesses the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Unaudited			
	Red wines	**White wines**	**All other products**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2017				
Revenue	**150,668**	**84,372**	**700**	**235,740**
Gross profit	**55,042**	**25,832**	**452**	**81,326**
Unallocated items:				
Depreciation and amortisation				**(17,612)**
Six months ended 30 June 2016				
Revenue	184,765	53,499	497	238,761
Gross profit	53,709	11,602	(140)	65,171
Unallocated items:				
Depreciation and amortisation				(16,506)

A reconciliation of total segment gross profit to total loss before income tax is provided as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Gross profit for reportable segments	**81,326**	65,171
Other income, gains and losses – net	**479**	727
Distribution costs	**(54,467)**	(92,975)
Administrative expenses	**(52,097)**	(44,927)
Operating loss	**(24,759)**	(72,004)
Finance costs– net	**(2,706)**	(2,376)
Loss before income tax	**(27,465)**	(74,380)

The amounts of total assets and liabilities for each reportable segment are not regularly provided to the chief operating decision maker.

The Group's customer base is diversified and no (2016: Nil) external customers with whom transactions have exceeded 10% of the Group's revenues. The majority of sales are within the People's Republic of China (the "**PRC**").

6 OPERATING LOSS

Operating loss is stated after charging:

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Employee costs comprising:		
– salaries, other allowance and benefits	**53,976**	59,440
– contributions to retirement benefits scheme	**4,248**	6,105
Total employee costs including directors' emoluments	**58,224**	65,545
Depreciation and amortisation	**17,612**	16,506
Loss on disposal of property, plant and equipment	**10**	10
Reversal of impairment in inventories included in cost of sales	**(10,818)**	(18,008)

7 INCOME TAX EXPENSE/(CREDIT)

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Current income tax:		
– Current income tax on profits for the period	**26**	–
– Annual tax filing difference	**–**	(329)
Deferred income tax:		
– Total deferred income tax	**–**	–
Income tax expense/(credit)	**26**	(329)

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

Provision for the PRC income tax has been made at the applicable rate on the estimated assessable profit for the period for each of the Group's subsidiaries. The applicable rate is principally 25% (2016: 25%).

8 DIVIDENDS

No interim dividend was declared during the six months ended 30 June 2017 (2016: Nil).

9 LOSS PER SHARE

The calculation of the basic loss per Share is based on the loss attributable to owners of the Company of HK$26,701,000 (2016: loss of HK$73,917,000) and the weighted average number of 1,248,200,000 Shares in issue during the six months ended 30 June 2017 (2016: 1,248,200,000 Shares).

As the Group has no dilutive instruments during the six months ended 30 June 2017 and all of the outstanding share options as issued by the Company were lapsed on 31 October 2016 without any dilutive effect, the Group's diluted earnings per Share equal to its basic earnings per Share for the six months ended 30 June 2017 and 2016.

10 TRADE AND NOTES RECEIVABLES

The Group grants a credit period of 90 to 180 days (2016: 90 to 180 days) to its customers. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2017	Audited 31 December 2016
	HK$'000	*HK$'000*
Up to 3 months	**40,577**	23,621
3 to 6 months	**9,526**	8,433
6 months to 1 year	**12,153**	7,914
1 year to 2 years	**4,818**	7,333
Over 2 years	**9,038**	8,296
	76,112	55,597
Less: impairment allowance	**(18,230)**	(16,991)
	57,882	38,606
Notes receivables	**29,051**	12,705
Trade receivables, net	**86,933**	51,311

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi ("**RMB**"). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

11 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date is as follows:

	Unaudited 30 June 2017	Audited 31 December 2016
	HK$'000	*HK$'000*
0-30 days	**20,201**	40,866
31-90 days	**23,138**	22,687
Over 90 days	**92,755**	146,871
	136,094	210,424

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2017 slightly decreased by 1.3% to HK$236 million (2016 – HK$239 million) and the Group's loss attributable to owners of the Company decreased to HK$26.7 million (2016 – HK$73.9 million).

Loss per Share for the six months ended 30 June 2017 as HK$2.1 cents per Share (2016 – HK$5.9 cents per Share) based on the weighted average number of 1,248 million Shares (2016 – 1,248 million Shares) in issue during the period under review. There was no potential dilutive Share for the period ended 30 June 2017.

The decrease in loss attributable to owners of the Company in the first half of 2017 was primarily due to increase in sales volume and improvement in gross margin compared with the same period previous year as a result of an improvement in operating condition, as well as a decrease in distribution costs due to the cost saving following the effective implementation of cost control policy during the period.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2017, total revenue slightly decreased by 1.3% to approximately HK$236 million from approximately HK$239 million for the corresponding period in 2016.

The Group's average ex-winery sales price of red and white wine products during the period was higher than the average price of HK$21.8 per bottle (750ml) for the whole year of 2016. Since consumers in the PRC have a preference for red wines, the Group was able to set higher prices for its red wine products and therefore the average ex-winery sales price of the Group's red wines was generally higher than that of its white wines.

Cost of sales

The following table sets forth the major components of cost of sales (before impact of provision for impairment in inventories) for the period under review:

	For the six months ended 30 June	
	2017	2016
	%	*%*
Cost of raw materials		
– Grapes and grape juice	**45**	43
– Yeast and additives	**2**	2
– Packaging materials	**21**	19
– Others	**1**	1
Total cost of raw materials	**69**	65
Manufacturing overheads	**22**	21
Consumption tax and other taxes	**9**	14
Total cost of sales	**100**	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the period under review, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 45% of the Group's total cost of sales, representing an increase of 2% from approximately 43% compared with the same period last year, due to the increase in purchase of grapes and grape juice.

Manufacturing overheads primarily consist of depreciation, rental of property, plant and equipment, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the period under review, manufacturing overheads as a percentage of cost of sales remained stable as compared with the corresponding period in 2016.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin increased to 34% for the six months ended 30 June 2017 from 27% for the corresponding period in 2016, mainly as a result of an improvement in operating condition.

During the period under review, the gross margin of red wine products and white wine products were 37% and 31% respectively (2016 – 29% and 22% respectively).

Distribution costs

Distribution costs principally include advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. During the period under review, distribution costs accounted for approximately 23% (2016 – 39%) of the Group's revenue. The decrease in distribution costs is due to the cost saving following the effective implementation of cost control policy during the period under review. During the period under review, the Group continued to promote and market its brand and products effectively through a range of joint promotions with wedding planner companies and local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure that its promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, depreciation and amortisation expenses, provision for impairment and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group's revenue accounted for 22% (2016 – 19%). This percentage remains stable during the period under review.

Income tax expense

Under the current laws of the Cayman Islands and the British Virgin Islands ("**BVI**"), neither the Company nor its subsidiaries incorporated in the BVI is subject to tax on its income or capital gains. In addition, any payment of dividends by them is not subject to withholding tax under those jurisdictions.

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate for all the subsidiaries of the Company established in the PRC had been unified at 25% effective from 1 January 2008. The change to income tax expense was because there was no annual tax filing adjustments in respect of prior years during the period.

Financial management and treasury policy

As at 30 June 2017, the Group's revenues, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operation and borrowings was placed on short-term deposits (denominated in RMB or Hong Kong dollars) with authorised financial institutions. The Company also paid dividends in Hong Kong dollars when dividends were declared. The Company did not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operations currently would not generate any significant foreign currency exposure, the Group will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and borrowings at fixed rates, the Group was exposed to minimal financial risk from interest rate fluctuation.

The purpose of the Group's investment policy is to ensure the investment of uncommitted funds achieves the highest practicable returns while heeding the need to preserve capital and assure liquidity.

Business review

Sales analysis

A. Distributorship

For the six months ended 30 June 2017, the Group continued implementing a reform on its sales and distribution model intending to improve the operational efficiency of the Group. Reform measures include, among other things, (i) co-operating with distributors to strengthen the control on retail price; (ii) enhancement in effective management in monitoring and controlling sales and marketing spending; and (iii) streamlining the existing multi-layered sales and distribution system so as to strengthen the Group's direct control over the sales channels, thereby enhancing efficiency and effectiveness.

Sales of red wines continued to be the Group's primary revenue contributor accounted for approximately 64% of the Group's revenue for the period under review (2016 – 77%).

The Group produces a wide range of more than 100 wine products under the "Dynasty" brand to meet the demands and preferences of different consumer groups mainly in the medium end segment in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers. Moreover, the Group also sold foreign branded wines mainly imported from France, Italy, Germany, the United States of America, New Zealand, Australia, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries about 200 imported products under approximately 80 brands. The Group believes that with the trend of increasing wealth and the disposable income of consumers, the demand for Dynasty and imported wines should increase. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and raise the visibility of these wines to the market.

B. *Retail shops*

To cater for different needs and preferences of the customers, the Group as at 30 June 2017 had 120 franchised retail shops across various provinces and cities in the PRC, selling a variety of Dynasty wines and imported wines to customers directly. The sales contribution from the retail shops was relatively insignificant to the Group's revenue during the period under review. However, the Group believed that through these sales channels and its network can attract more people to embrace the grape wine culture and lead the trend of rising wine consumption. At the same time the Group could also expand its sales presence, extend its market influence, bring greater awareness to the brand because retail shops are amongst the best vehicles to communicate its brand image and message, and to enhance customers' experience of buying and drinking wines. The Group had strategically planned to develop its franchised retail shops through a disciplined growth strategy to develop the number of similar establishments in appropriate locations. The Group closed its smaller and less efficient retail shops. During the period under review, 120 franchised retail shops were in operation by the end of the period.

The following table sets out the number of franchised retail shops by regions as at 30 June 2017:

Region	**Number of franchised retail shops**
South-Central region	65
Eastern region	26
North-West region	1
North-East region	4
Northern region	24
Total	120

C. *Online sales*

The Group has operated its online stores on the online platforms, Tmall (天貓商城) and JD.com (京東商城) to further expand its sales channels and develop a new customer base. Customers can place orders via the internet on these websites for Dynasty wines or the imported wines the Group carries anywhere at any time. Although the online sales contribution was insignificant during the period, the Group is optimistic about the prospects of the business as research indicates that online trading business in the PRC should grow steadily in the coming years and the country has the world's largest number of internet users. The Group believes that the online platform not only serves as a business-to-customer trading platform between Dynasty and consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group because growth in online sales channels will be further exploited internationally following successful e-commerce model overseas.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, the Group has more than 10 major grape juice suppliers with whom it has enjoyed long-term relationships, mainly located in Tianjin, Shandong, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of its growing business as well as its expanded production capacity is a high priority of the Group. Thus, the Group continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and equip their vineyards with state-of-the-art techniques for assuring quality. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grape. For optimising supply networks, the Group has also kept identifying new suppliers who comply with its quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure the Group procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has imported grape juices from overseas, applying the same stringent quality requirements as it has on suppliers in the PRC.

Production capacity

In 2017, the Group has production and research and development facilities in its Tianjin winery with its annual production capacity of 70,000 tonnes (equivalent to approximately 93.3 million bottles).

After completion of the Disposal, the Group's annual production capacity is expected to decrease from 70,000 tonnes to 50,000 tonnes. Such expected capacity is sufficient for the Group to promptly response to the market demand and provide a platform for sustainable earnings growth.

Prospects and future plans

Looking ahead to the second half of 2017, the Group expects to continue to face various challenges, in addition to increasing competition amidst fast-changing economic conditions. Nonetheless, the Group will continue to develop proactively its sales and distributors network especially in regions where it has low market presence and areas of high potential for growth, which will provide a solid foundation for sustainable development in the future.

Human resources management

Quality and dedicated staff are the most important assets of the Group. The Group strive to ensure a strong team spirit among its employees so that they identify and contribute in unison to its corporate objectives. To this end, the Group offers competitive remuneration packages commensurate with market practices and industry levels, and provides various fringe benefits including training, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. The Group is committed to staff training and development to support the need of the business and individuals, so employees are encouraged to enroll in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Group employed a work force of 473 (including directors) (2016 – 426) in Hong Kong and the PRC as at 30 June 2017. The change in manpower has occurred mainly due to the internal human resources adjustment in response to the business development. The total salaries and related costs (including the directors' fees) for the period ended 30 June 2017 amounted to approximately HK$58.2 million (2016 – HK$65.5 million).

Liquidity and financial resources

The liquidity and financial position of the Group remain intact as the Group continues to adopt a prudent approach in managing its financial resources. As at 30 June 2017, the Group's cash and cash equivalents, and short-term deposits amounted to HK$74.4 million (31 December 2016 – HK$90.7 million). It has sufficient financial support and resources and an adequate cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

The Group had net debt of HK$59.5 million (31 December 2016 – HK$26.6 million) (total borrowings less cash and cash equivalents), with total equity of the Group amounted to approximately HK$349.1 million (31 December 2016 – HK$361.2 million) as at 30 June 2017 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debt to total capital (net debt and total equity), as at 30 June 2017 was 15% (31 December 2016 – 7%).

Capital structure

The Group had borrowing of HK$133.9 million (31 December 2016 – HK$117.3 million), with cash and liquid position of HK$74.4 million (31 December 2016 – HK$90.7 million) as at 30 June 2017, reflecting its intact capital structure. The Group expects its cash with proceeds from the sale of chateau and the continuing financial support from the ultimate shareholder of its major shareholder to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

Included in borrowings were mainly entrusted bank borrowings of approximately HK$103.7 million (31 December 2016 – HK$100.6 million) as advance to the Group by Tianjin Food Group through banks. Such bank borrowings were secured by the land and buildings of the subsidiary of HK$190.6 million (31 December 2016 – HK$191.6 million). The period of the loan was from 15 January 2016 to 12 July 2017. The annual fixed interest rate was 5.35% (31 December 2016 – 5.35%).

As at 30 June 2017, the market capitalisation of the Company was approximately HK$1,797 million (31 December 2016 – HK$1,797 million). Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013 and will remain suspended until further notice.

Capital commitments, contingencies and charges on assets

As at 30 June 2017, there was no capital expenditure contracted for at the end of the period but not yet incurred.

The Group had contingent liabilities in terms of:

In June 2018, an arbitration was lodged by a supplier against one of the Group's subsidiaries for its non-performance under a raw materials purchasing agreement as signed in November 2015. The matter is currently being considered by the Tianjin Arbitration Commission. The external lawyer as appointed by the Group and the Group's internal legal department consider it to be probable that the judgement will be in favour of the Group and has therefore not recognised a provision in relation to this case. The potential compensation that the Group could be required to make if there was an adverse decision related to the arbitration is estimated to be approximately RMB30 million.

In March 2019, a lawsuit was lodged by a supplier against one of the Group's subsidiaries for its non-performance under a raw wine purchasing supplementary agreement as signed in May 2015. The matter is currently being considered by the Tianjin Beichen District People's Court. The external lawyer as appointed by the Group and the Group's internal legal department consider it has partial possibility that the judgement will be in favour of the Group and has therefore not recognised a provision in relation to this case. The potential compensation that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately RMB0.7 million.

Included in borrowings were entrusted bank borrowings of approximately HK$103.7 million (31 December 2016 – HK$100.6 million), which were secured by the land and buildings of the subsidiary of HK$190.6 million (31 December 2016 – HK$191.6 million).

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the period ended 30 June 2017, the Group did not make any material acquisitions or disposal of subsidiaries, associates or joint ventures.

Event after the reporting period

As at the date of this announcement, RMB100 million of all borrowings have been repaid on the maturity date. After the period end, entrusted bank borrowings of RMB110 million and RMB130 million granted by the Tianjin Food Group through China CITIC Bank and China Merchants Bank respectively have been lent to the Group for a period of 1 year, bearing interest rate of 4.35% to 5.35% per annum. As the date of this announcement, all of the aforesaid borrowings of RMB240 million has been repaid.

In February 2017, the Directors of the Company indicated its intention to dispose a chateau and related facilities held by a subsidiary, Sino-French Joint-Venture Dynasty Winery Ltd. (referred to as the "**Tianjin factory**"). On 27 June 2017, the Board announced that Tianjin factory would dispose of a chateau and related facilities through a public auction on Tianjin Property Rights Transaction Centre ("**TPRTC**") in the PRC pursuant to the relevant PRC laws and regulations in relation to transfer of PRC state-owned assets. The reserve price for the proposed sale and transfer of a chateau and related facilities was RMB400 million.

On 24 October 2017, Tianjin Yiyang Big Health Small Township Development Co., Ltd., an independent third party, (the "**purchaser**"), registered with TPRTC regarding the purchase of the chateau and related facilities. Accordingly, the land use right and buildings in relation to this chateau were classified as assets held for sale as at 31 December 2017.

On 23 July 2018, the Tianjin factory formally entered into an Asset Transaction Agreement with the purchaser to dispose the land use right and buildings in relation to the chateau at consideration of RMB400 million (the "**Disposal**"). The Disposal was approved by the shareholders of the Company at the extraordinary general meeting on 5 December 2018. On 16 May 2019, the Tianjin factory received the consideration of RMB400 million from the purchaser through TPRTC. As of the date of this announcement, the Disposal has not yet completed pending for certain administrative registration procedures.

Interim dividend

The Directors did not recommend the payment of any interim dividend to the shareholders of the Company for the period ended 30 June 2017.

Purchase, sale or redemption of Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Shares during the period under review.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code for Directors' securities transactions (the "**Model Code**"). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the six months ended 30 June 2017.

Corporate governance

The Company is committed to fulfilling its responsibilities to the shareholders and protecting and enhancing shareholder value through solid corporate governance. It devotes considerable efforts in identifying and formalising best practices. It also exerts its best efforts to ensure optimum transparency and the best quality of disclosures. The Board has been and will continue to uphold the appropriate standards of corporate governance within the Group, thereby ensuring all businesses are conducted in an honest, ethical and responsible manner and the proper processes for oversight of its businesses are in place, in operation and are regularly reviewed.

Compliance with the Corporate Governance Code

Throughout the period under review, save as disclosed below, none of the Directors was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules (the "**Code**") for the period ended 30 June 2017. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the period ended 30 June 2017 and up to the date of this announcement, the number of independent non-executive Directors fell below one-third of the Board. The Company intended to look for suitable candidate of independent non-executive Director who is familiar with the fast moving consumer goods industry, and who has extensive experience in wine business. However, the Company has yet identified such suitable candidate. As such, the number of independent non-executive Directors could not represent at least one-third the Board required under Rule 3.10A of the Listing Rules.

At 30 June 2017, as additional time is required by the Group to follow up certain issues which might have impact on annual results of the Group for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 and to provide additional information and documents requested by auditors to perform additional procedures to complete its work, the Group has breached the financial reporting provisions under (i) Rule 13.49(1)/13.49(6) and (ii) 13.46(2)/13.48(1) of the Listing Rules in respect of (i) announcing the annual/interim results for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 and for the six-month periods ended 30 June 2013, 2014, 2015 and 2016; (ii) publishing the related annual/interim reports for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 and for the six-month periods ended 30 June 2013, 2014, 2015 and 2016; and (iii) convening an annual general meeting for the financial years ended 31 December 2012, 2013, 2014, 2015 and 2016.

On 8 December 2017, the Company announced the annual results for the years ended 31 December 2012, 2013, 2014 and 2015. On 15 February 2018, the Company announced the annual results for the year ended 31 December 2016. On 8 June 2018, the Company announced the interim results for the six-month periods ended 30 June 2013, 2014, 2015 and 2016.

Publication of interim results and interim report on the website of the Company and of the Stock Exchange

The interim results announcement is published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange.

The interim report of the Company for the period ended 30 June 2017, which contains all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange in due course. Further announcement will be made by the Company as and when appropriate.

Suspension of trading

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 22 March 2013, and will remain suspended until further notice. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares. The publication of this announcement does not warrant any approval from the Stock Exchange on the resumption of trading of the Shares. The Company will keep the public informed of the latest development by making further announcements as and when appropriate.

By order of the Board
Dynasty Fine Wines Group Limited
Mr. Sun Jun
Chairman

Hong Kong, 22 July 2019

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Sun Jun, Mr. Li Guanghe and Mr. Sun Yongjian, five non-executive Directors, namely, Mr. Heriard-Dubreuil Francois, Ms. Shi Jing, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc, and three independent non-executive Directors, namely, Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee.